

Henry K. Ricklefs
Vice President, Manufactured Products

Plum Creek
PO Box 1990
Columbia Falls, MT 59912
406-892-6486 Fax: 406-892-6171
e-mail: hricklef@plumcreek.com

SENATE TAXATION

EXHIBIT NO. 7

DATE 3-26-07

FILE NO. SB-120



PlumCreek

March 7, 2007

Mr. Chairman and members of the Senate Taxation Committee:

I am Henry Ricklefs from Whitefish, Vice President of Plum Creek's Manufactured Products Division here in Montana, and a member of the Company's Executive Officer group. I appreciate your giving me time to address SB-120, the REIT Tax Bill.

This bill has been publicly stated to be about Plum Creek and our REIT status. So I would like to state head-on why it should be rejected. The bill and its surrounding publicity are based on four distinct misconceptions that need to be clearly understood by this Committee.

The first misconception, and one promoted in the press, is that Plum Creek does not pay taxes in Montana. I can state categorically that we pay both property taxes (recently \$3.8 million) and income taxes (roughly \$2 million for 2006), with the latter primarily representing income from our Montana manufacturing subsidiaries. These are distinct from the REIT-qualified portion of our Montana business, which essentially is the timber business.

The second misconception is that as a REIT, our timber operations are "just like other companies who pay income taxes". By law, REITs do not operate just like other C-corps; they are required to pass-through via dividends 90% of their earnings to their shareholders. This is the level ... i.e. the recipient level ... that the U.S. Congress and the IRS intended REIT income to be taxed. C-Corps have no such high payout requirement; their income is taxed at the source because it can be fully retained at the corporation.

The third misconception is that Montana will not be negatively impacted if they become the first and only state to adopt taxation of REIT income. This action sends a very strong message of "business unfriendliness" to new investment in the State. And REIT's are a strong, growing sector of new investment capital for commercial buildings, apartments, nursing homes, etc. REIT's will get the "not welcome in Montana" message loud and clear. And I strongly suggest that other pass-through taxation entities (such as mutual funds, credit unions, who knows what next?) will get the same unwelcome message.

The last misconception comes from the Department of Revenue itself, who suggests that SB-120 is simply a step at taxing income at the source versus at the recipient level. I submit that the State of Montana cannot have it both ways: REIT legislation was structured to place income taxation at the dividend recipient level. Nowhere in SB-120 do we hear the State of Montana renouncing taxation of individual Montana taxpayers on the dividends they receive from out-of-state REIT income. The Department wants to have its cake (tax REIT income generated in state) and eat it too (tax REIT dividends received from out-of-state by individual Montana taxpayers)

Members of the Senate Taxation Committee, it is an easy sound-bite to characterize this bill as addressing the problem of "Big out-of-state corporation pays no tax!" Plum Creek may be headquartered in Seattle, but we have a long and proud heritage in the State of Montana. As a representative of our 1400 Montana employees, I suggest that SB-120 is clearly aimed at imposing a new and unwarranted type of taxation on Plum Creek. This added tax is especially onerous at a time when our products face a depressed housing market, declining Montana timber supplies, and competition from many other regions of North America and the World. It is bad legislation based on four fundamental misconceptions:

- That Plum Creek pays no taxes in Montana...we do.
- That REITs are just like other Companies...they are not.
- That Montana can move counter to Federal and other States' tax policy without harming our business environment...it cannot.
- And that Montana can have its tax policy both ways, at the source and at the recipient level....it should not.

I urge you to see through these misconceptions and reject SB-120. Thank you.

(If you have questions of a technical nature concerning REIT taxation, my colleague Mr. Bill Deklerk, Plum Creek's Tax Director, is also here in attendance today.)

Henry K. Ricklefs
Vice President
Manufactured Products